Australia: Color Cosmetics

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Summary

The color cosmetics market in Australia is an active market, offering significant opportunities for new entrants. The demand for color cosmetics is estimated at US$657 million, with imports representing 42 percent. Of the total market supplied by imports, the U.S. holds a substantial share. The sector is experiencing a growth rate of 5 percent, with color cosmetics incorporating advanced formulas spurring on growth.

Market Demand

Color cosmetics that offer appearance-enhancing benefits along with anti-aging properties, are in a good position for continued growth. Increasingly, manufacturers are supplying goods that emphasize preserve and protect rather than just for cosmetic appearance, e.g., products to reduce wrinkles. The baby boomer and the working women demographic groups are key market sub-sectors, generating much of the demand. The increasing concern about sun damage and the entry of the 'baby boomer' generation into middle age are both leading to the wider use of color cosmetics with age defying properties.

The color cosmetics market in Australia is fashion focused, with consumers interested in products that offer new season colors. These colors are primarily determined by international catwalk fashion, which has a major influence on Australian trends.

Australian consumers are considered price conscious. It is common for Australian women to spend time shopping around for color cosmetics, rather than purchasing a number of items from one type of store. It is also common for the average income consumer to choose one particular color cosmetic such as a lipstick from a mass-market chain, and then select a premium brand such as a compact powder from a department store.

Brands associated with celebrities, particularly brands linked to makeup artists, are well received. Prospects are promising for color cosmetic limited edition ranges assisted by the support of world-renowned fashion designers. Australian consumers follow the styles set by their favorite movie stars or fashion icons.

Market Data

MARKET SIZE FOR COLOR COSMETICS PRODUCTS US$ million

	2006	2007	2008 (estimated)
Total Market Size	559	657	743
Total Local Production	420	485	549
Total Exports	89	109	123
Total Imports	228	281	317
Imports from the U.S.	79	96	108

Exchange rate

2006	0.75
2007	0.85
2008	0.92

Expected inflation rate: 3.8%

(Australian Bureau of Statistics)

The market for color cosmetics in Australia is estimated to be worth US$657 million in 2007. Through 2008, demand is expected to grow by 5 percent per annum, in line with growth in premium brands. This growth is partially influenced by the average price of color cosmetics increasing as Australian consumers increasingly target superior brands

Imports valued at US$281 million supplied 42 percent of domestic demand in 2007. The U.S. import market share is 34 percent. Other major sources of imports of cosmetics are: France (16 percent of imports), China (7 percent), and the United Kingdom (7 percent).

Major U.S. companies, Revlon and Estee Lauder continue to be prominent. Revlon is the number one supplier of color cosmetics in Australia, primarily as a result of the continuing popularity of the Revlon and ColorStay brands. French companies, Christian Dior and L'Oreal (Lancôme, Maybelline, L'Oreal brands) are also amongst the top suppliers.

Best Prospects

Future growth is predicted for the import of innovative and quality brands. Premium products are expected to experience strong growth in line with fashion trends that give preference to high quality products. A continuing demand for appearance enhancing products is creating favorable prospects for suppliers of foundation/concealer. This is particularly relevant to products that contain ingredients with anti-aging properties.

Growth is also occurring in lip-gloss and color palettes. Lip-gloss accounts for 14 percent of color cosmetic imports into Australia. Value added products such as lipsticks that have a plumping effect are popular, as are long lasting lipsticks. Convenient color palettes for quick touch-ups are also becoming more common. These multi-purpose color cosmetic products are for use on cheeks, eyes and lips. Mid-priced color palettes are particularly well received by working women, who appreciate the convenience of not having to carry numerous products in their purses.

Key Suppliers

Major U.S suppliers of color cosmetics into the Australian market include Revlon (Revlon and ColorStay), Estee Lauder, Avon, Elizabeth Arden, and Procter & Gamble (Cover Girl, Max Factor). Each of these companies offer comprehensive ranges targeting the mainstream consumer, with Revlon and Estee Lauder accounting for 19 percent and 16 percent of color cosmetic retail sales in Australia respectively. Other U.S. brands include Stila and Nars, both of which specifically target the younger consumer.

Domestic production offers strong competition to imports. Local players are providing a challenge to the major multinational cosmetic manufacturers. There has been considerable growth in makeup ranges developed by local companies, and for the most part, have been developed to meet a local market niche. These brands include Glamourflage, Mor, Bella and Chi Chi, all of which are based in Melbourne. Positioned mid-range, the main target market for these brands is the younger consumer. The price points of these lines encourages the younger consumer, whose purchasing decisions are based on new trends, to continue interest in these brands.

France is also a major source of color cosmetics, with high-end brands such as Christian Dior, Clarins and Lancôme. L'Oreal, along with producing mid to lower tier brands Maybelline and L'Oreal Paris, supply premium brand Lancôme. L'Oreal operates an Australian subsidiary, maintaining a market share of 15 percent of color cosmetic retail sales.

Prospective Buyers

The Australian color cosmetics market includes the following categories:

- the teenage market (13-19 years)
- young women (19 – 25 years)
- working women (26 – 45 years)
- the ageing baby boomer market (45 – 65 years)
- the natural products market (16 – 45 years)
- mass market shoppers (13-60 years)

The end user group identified to hold the most potential for U.S. suppliers is the working women demographic. Working women are increasingly wearing color cosmetics on a daily basis due to the increased competition in the workforce and the importance placed on image. This demographic includes young professionals who have completed university or who entered the workforce directly from school and have worked their way up the corporate chain. Therefore, this demographic tends to have a higher disposable income than the demographic of 'young women'. Women of the workforce generally appreciate convenience due to the busy nature of their lifestyles but are also more likely to prefer mid-high end color cosmetics. For example, products such as long lasting lipstick or multi-purpose products such as color palette products for the lips, eyes and cheeks have proven popular with this demographic.

Teenagers are increasingly influenced by celebrities, peer pressure and fashion trends. Products endorsed by celebrities and limited edition ranges created in association with well-known fashion designers are particularly successful with teenagers as they are more likely to follow fashion trends. The teenage market and the young women demographic demand products that provide glamour, association and excitement at affordable prices due to their lower income by comparison to other prospective buyer groups.

The ageing baby boomer market is increasingly preferring color cosmetics that not only enhance their appearance but also contain added benefits. For example, foundations that protect the skin against harmful UV rays, reduce the appearance of fine lines and contain treatment ingredients to help a variety of skin problems. The ageing baby boomers are among an increasing number of Australians who prefer premium color cosmetics.

Australian women over the age of 21 generally do not mind paying higher prices for products that offer benefits to suit their individual needs. Australian women also tend to equate higher prices with superior quality.

The number of consumers preferring natural color cosmetics has grown rapidly in Australia. Girls as young as 16 are opting for natural alternatives to their color cosmetic choices due to increased awareness and education in this sector.

Market Entry

There has been a marked shift in retailing of color cosmetics in Australia in recent years.
Pharmacies, salons and cosmetic retailers (a group which once occupied a large portion of the market), now represent 35 percent of cosmetic and toiletry sales. Department stores have a market share of 20 percent. General merchandise retailers such as Target and Kmart, which are part of the Coles group, and Big W, which is a Woolworths company, stock cosmetics and toiletries at very competitive prices. Some supermarkets now stock color cosmetics, with the "health and beauty" category being one of the fastest

grocery growth areas. Premium cosmetics continue to be sold by pharmacies and cosmetic retailers and high-end department stores.

The move from pharmacies and salons to mass-market chains and supermarkets has stimulated growth not only in the color cosmetics sub-sector, but also in skin care and hair care sub-sectors. This expansion is a result of mass-market chains and supermarkets aiming for a larger customer base.

Australia's distribution and sales channels for cosmetics are similar to those in other industrialized countries, with channels of distribution through the use of distributors or agents and through direct sales. As is the case in the United States, carrying out due diligence is a critical factor.

Australia is well serviced by a range of financial services offered by local and international banks. Financing practices are comparable to those in the U.S. The terms of payment are negotiable, with import financing effected through open account, commercial bills of exchange (sight and time drafts), letters of credit, and cash in advance. Usually payment terms of 30-60 days are considered the norm amongst the cosmetics industry, with letter of credit and sight drafts the most common methods.

Market Issues & Obstacles

As a result of the Free Trade Agreement between the United States and Australia, the general import duty on cosmetics and toiletries decreased on January 1, 2005, from five percent to zero. Further information about duties and customs requirements can be obtained by viewing the Australian Customs Service website: www.customs.gov.au.

When cosmetics are shipped to Australia, the goods will be subject to GST (Goods and Services Tax), which is a 10 percent broad-based tax on the sale or provision of most goods and services. While the responsibility to pay GST to the Australian Taxation Office lies with the producer/supplier, it is the consumer who finally bears the GST cost. The importer pays the GST to the Australian Customs Service.

Australia has strict regulatory requirements for the import of cosmetics. Such products can be subject to approval by the Therapeutic Goods Administration (TGA), which is part of the Australian Government. Approval by the TGA will depend on presentation of the products and the claims made, and whether the TGA considers the claims to be therapeutic or cosmetic. For instance, products that claim to protect against UV rays may be considered therapeutic. Further information on approval processes, including costs, can be obtained from:

Therapeutic Goods Administration
P.O. Box 100
Woden, ACT 2606
Australia
Tel: 61-2-6232-8444
Fax: 61-2-6232-8605
Web: www.tga.gov.au

Ingredient safety falls under the National Industrial Chemicals Notification and Assessment Scheme (NICNAS), administered by the National Occupational Health and Safety Commission. NICNAS issues approval for the use of a wide range of substances, including ingredients in cosmetic products. For further information, the details of NICNAS are:

National Industrial Chemicals Notification and Assessment Scheme (NICNAS)
GPO Box 58
Sydney NSW 2001
Tel: 61-2-8577-8800
Fax: 61-2-8577-8888

Email: info@nicnas.gov.au
Website: www.nicnas.gov.au

Trade Events

International Beauty Expo
Date: April 12-13, 2008
Location: Melbourne Exhibition and Convention Centre
Website: www.internationalbeautyexpo.com.au
Australian trade event, with some participation by New Zealand companies. Covers the beauty sector, with emphasis on skin care, color cosmetics and nail care.

Resources & Contacts

Cosmetic, Toiletry and Fragrance Association of Australia Inc.
Website: www.ctfa.com.au
Purpose: National association representing the cosmetic, toiletry and fragrance industry in Australia.

National Industrial Chemicals Notification and Assessment Scheme (NICNAS)
Website: www.nicnas.gov.au
Purpose: Australian Federal Government agency regulating ingredient safety.

Pharmacy Guild of Australia
Website: www.guild.org.au
Purpose: Key national association representing the retail pharmacy industry.

Therapeutic Goods Administration
Website: www.tga.gov.au
Purpose: Australian Federal Government agency regulating goods with a therapeutic purpose.

For More Information

The U.S. Commercial Service in MELBOURNE/AUSTRALIA can be contacted via e-mail at: annette.ahern@mail.doc.gov; Phone: 61-3-9526-6928; Fax: 61-3-9510-4600; or visit our website: www.buyusa.gov/australia.

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